

**UNIVERSITY PHYSICIANS  
HEALTHCARE**

**YEARS ENDED JUNE 30, 2008 AND 2007**



**BEACH, FLEISCHMAN & CO., P.C.**  
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### Independent Auditors' Report

Board of Directors  
University Physicians Healthcare  
Tucson, Arizona

We have audited the accompanying statements of financial position of University Physicians Healthcare (UPH) as of June 30, 2008 and 2007 and the related consolidated statements of activities and cash flows for the years then ended. These consolidated financial statements are the responsibility of UPH's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We did not audit the financial statements of Caduceus Indemnity Insurance Corporation, Ltd., a wholly owned subsidiary, which statements reflect total assets of \$48,416,573 and \$51,103,348 as of June 30, 2008 and 2007 and total revenues of \$5,625,700 and \$6,054,265 for the years then ended. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Caduceus Indemnity Insurance Corporation, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with U.S. generally accepted auditing standards established by the AICPA Auditing Standards Board. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of UPH's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of University Physicians Healthcare as of June 30, 2008 and 2007, and the changes in their net assets and their cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

We conducted our audits to form an opinion on the basic consolidated financial statements taken as a whole. The accompanying information on pages 21 through 50 is presented for purposes of additional analysis and is not a required part of the basic consolidated financial statements. The information on pages 21 through 25 and 36 through 46 has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole, except for Caduceus Indemnity Insurance Corporation, Ltd. In our opinion, which insofar as it relates to Caduceus Indemnity Insurance Corporation, Ltd., is based on the report of other auditors, such information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. The information on pages 26 through 35 and 47 through 50 has not been subjected to auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

*Beach, Fleischman & Co., P.C.*

October 28, 2008

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**UNIVERSITY PHYSICIANS HEALTHCARE**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2008 AND 2007**

**ASSETS**

	<u>2008</u>	<u>2007</u>
Current assets:		
Cash and cash equivalents	\$ 20,440,267	\$ 5,713,714
Assets limited as to use	23,651	7,674,100
Accounts receivable, net	35,379,178	37,404,152
Estimated third-party payor settlements	1,059,251	1,047,488
Capitation, contract and other receivables	20,137,170	19,511,550
Other current assets	<u>5,195,776</u>	<u>4,111,669</u>
Total current assets	82,235,293	75,462,673
Property and equipment, net	49,515,487	46,372,818
Assets held for sale	571,030	571,030
Investments	58,686,295	73,884,389
Assets limited as to use	<u>1,116,092</u>	<u>1,111,555</u>
	<u><u>\$192,124,197</u></u>	<u><u>\$197,402,465</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:		
Notes payable, banks	\$ 25,000,000	\$ 20,000,000
Current maturities of capital lease obligation	1,695,446	1,385,346
Current maturities of long-term debt	2,592,360	2,397,718
Accounts payable and accrued expenses	19,323,079	17,037,012
Accrued employee compensation	23,376,501	21,604,158
Accrued professional liability claims	16,203,000	13,600,000
Accrued medical claims	6,577,375	8,590,640
Amounts due to the College of Medicine	<u>638,783</u>	<u>499,065</u>
Total current liabilities	95,406,544	85,113,939
Capital lease obligation, less current maturities	5,011,626	5,160,003
Long-term debt, less current maturities	<u>21,077,579</u>	<u>23,169,937</u>
	121,495,749	113,443,879
Commitments and contingencies		
Unrestricted net assets	<u>70,628,448</u>	<u>83,958,586</u>
	<u><u>\$192,124,197</u></u>	<u><u>\$197,402,465</u></u>

See notes to consolidated financial statements.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**CONSOLIDATED STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Revenues and gains:		
Professional and hospital services	\$ 196,609,311	\$ 198,892,455
Capitation and contract services	127,743,978	106,376,335
Investment income	<u>3,421,799</u>	<u>2,485,837</u>
Total revenues and gains	<u>327,775,088</u>	<u>307,754,627</u>
Operating expenses:		
Personnel services	170,163,394	161,313,723
Operations	71,626,423	76,808,810
Provision for doubtful accounts	31,824,623	32,063,875
Members' benefits	12,769,732	10,684,193
Assessments	8,808,522	7,872,490
Liability insurance	9,500,061	7,601,192
Medical supplies	18,352,113	15,128,574
Depreciation and amortization	9,169,087	8,563,225
Interest	<u>2,342,104</u>	<u>1,011,285</u>
Total operating expenses	<u>334,556,059</u>	<u>321,047,367</u>
Loss from operations	(6,780,971)	(13,292,740)
Nonoperating income (loss)	<u>(3,141,344)</u>	<u>668,013</u>
Deficiency of revenues over expenses	(9,922,315)	(12,624,727)
Net unrealized gains (losses) on investments	<u>(3,407,823)</u>	<u>2,788,301</u>
Decrease in unrestricted net assets	(13,330,138)	(9,836,426)
Unrestricted net assets, beginning	<u>83,958,586</u>	<u>93,795,012</u>
Unrestricted net assets, ending	<u>\$ 70,628,448</u>	<u>\$ 83,958,586</u>

See notes to consolidated financial statements.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
Cash flows from operating activities:		
Decrease in unrestricted net assets	<u>\$ (13,330,138)</u>	<u>\$ (9,836,426)</u>
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Net unrealized (gains) losses on investments	3,407,823	(2,788,301)
Net realized losses on investments	2,877	76,199
Depreciation and amortization	9,169,087	8,563,225
Amortization of investment securities	50,757	102,239
Noncash income (loss) of other investments	3,790,062	(2,160,571)
Provision for doubtful accounts	31,824,623	32,063,875
(Gain) loss on disposals of property and equipment	(18,492)	51,620
Changes in operating assets and liabilities:		
Accounts receivable	(29,799,649)	(36,546,670)
Estimated third-party payor settlements	(11,763)	(637,663)
Capitation, contract and other receivables	(625,620)	(5,845,425)
Other current assets	(1,084,107)	(929,089)
Accounts payable and accrued expenses	4,648,145	14,306,389
Amounts due to the College of Medicine	<u>139,718</u>	<u>(608,397)</u>
Total adjustments	<u>21,493,461</u>	<u>5,647,431</u>
Net cash provided by (used in) operating activities	<u>8,163,323</u>	<u>(4,188,995)</u>
Cash flows from investing activities:		
(Increase) decrease in assets limited as to use	7,645,910	(4,599,648)
Proceeds from sales of investments	15,692,218	23,265,437
Purchases of investments	(7,517,768)	(10,265,994)
Investment in equity method investee	(227,873)	(2,981,358)
Purchases of property and equipment	(10,911,267)	(19,097,342)
Proceeds from disposals of property and equipment	<u>240,212</u>	<u>125,500</u>
Net cash provided by (used in) investing activities	<u>4,921,432</u>	<u>(13,553,405)</u>
Cash flows from financing activities:		
Repayments related to checks to be funded		(1,148,075)
Net borrowings notes payable, banks	5,000,000	16,876,000
Proceeds related to long-term debt	500,000	10,000,000
Principal payments on capital lease obligations	(1,460,486)	(1,332,641)
Principal payments on long-term debt	<u>(2,397,716)</u>	<u>(2,009,133)</u>
Net cash provided by financing activities	<u>1,641,798</u>	<u>22,386,151</u>
Net increase in cash and cash equivalents	14,726,553	4,643,751
Cash and cash equivalents, beginning	<u>5,713,714</u>	<u>1,069,963</u>
Cash and cash equivalents, ending	<u>\$ 20,440,267</u>	<u>\$ 5,713,714</u>

See notes to consolidated financial statements.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

1. Description of business and summary of significant accounting policies:

Description of business:

University Physicians Healthcare (UPH) is responsible for the patient care activities provided by faculty members in clinical departments of the College of Medicine and University of Arizona (UA) Health Sciences Center (UMC). UPH is also responsible for the activities of University Physicians Healthcare Hospital at Kino Campus (UPHK), which is operated under a lease agreement with Pima County. UPHK is an acute care and psychiatric hospital that provides inpatient, outpatient and emergency care services. UPH provides services primarily in southern Arizona.

Caduceus Indemnity Insurance Corporation, Ltd. (Caduceus), a wholly-owned subsidiary of UPH, is a captive insurance company, domiciled in Hawaii, which began covering UPH's medical malpractice claims on July 1, 1993.

Principles of consolidation:

The consolidated financial statements include all accounts of UPH and its subsidiary, Caduceus. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates:

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Excess (deficiency) of revenues over expenses

The statements of activities include excess (deficiency) of revenues over expenses. Changes in unrestricted net assets that are excluded from excess (deficiency) of revenues over expenses, consistent with industry practice, include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

Fair value of financial instruments:

UPH's financial instruments include cash and cash equivalents, assets limited as to use, receivables, investments, accounts payable, accrued expenses, accrued claims, long-term debt and capital lease obligations. For all of UPH's financial instruments that are carried at cost, that cost approximates fair value, except for long-term debt and capital lease obligations. At June 30, 2008 and 2007, the fair value of long-term debt and capital lease obligations is \$29,876,255 and \$31,536,769 and the carrying amount is \$30,377,011 and \$32,113,004.

# UNIVERSITY PHYSICIANS HEALTHCARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

1. Description of business and summary of significant accounting policies (continued):

Cash and cash equivalents:

UPH considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

UPH places its cash and cash equivalents with high quality credit institutions. At times, such investments may be in excess of the FDIC insurance limit; however, management does not believe it is exposed to any significant credit risk on cash and cash equivalents.

Assets limited as to use:

Assets limited as to use primarily include assets held by trustees under indenture agreements and investments held as collateral for indenture agreements. The contracted maturities of assets limited to use range from 1 to 30 years.

Accounts receivable:

UPH grants unsecured credit to its patients and insurance companies without interest. Generally, accounts receivable are considered to be past due after 60 days. Accounts receivable also include an estimate for charges with dates of service prior to year end that were billed subsequent to that date (unbilled accounts receivable). UPH provides an allowance for doubtful accounts equal to the estimated collection losses that will be incurred. The estimated losses are based on historical collection experience coupled with review of the current status of existing receivables. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Doubtful accounts are periodically reviewed for collectibility and are charged off to the allowance when management determines that all reasonable collection efforts have been exhausted. For the year ended June 30, 2008, the estimate for unbilled accounts receivable at June 30, 2007 was adjusted by approximately \$5,500,000 and approximately, \$2,500,000 net of allowances for contractual adjustments and doubtful accounts.

Property and equipment:

Expenditures for major improvement or items which benefit future periods are capitalized at cost, if purchased, or at market value at date of gift, if donated. Expenditures for repairs and maintenance are expensed as incurred. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized using the straight-line method over the shorter of the lease term or the estimated useful lives of the assets.

Equipment under capital lease is stated at cost or the assets' net present value of future lease payments at the date of the lease. Amortization is provided using the straight-line method over the estimated useful lives of the assets and is included with depreciation expense.

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the fair value is less than the carrying amount of the asset, a loss is recognized for the difference.

# UNIVERSITY PHYSICIANS HEALTHCARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

1. Description of business and summary of significant accounting policies (continued):

Investments:

Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value in the consolidated statements of financial position. Investments in which UPH has significant influence over the investee are accounted for on the equity method. Investment income or loss (including realized gains and losses on investments) is included in the excess (deficiency) of revenues over expenses unless law restricts the income or loss. Unrealized gains and losses on investments, except those considered as other than-temporary, are excluded from the excess of revenues over expenses due to the non-trading nature of the investments. The contractual maturities of certain investments held range from 1 to 30 years.

Accrued professional liability claims:

The cost of medical malpractice losses incurred by physicians is accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not received at year-end. The amount of this liability is computed using historical claims payment experience. Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Accrued medical claims:

The cost of hospital and medical services provided to enrollees served under contract are accrued in the period that the services are rendered. A provision has been made for claims in process of review and for claims incurred but not received at year-end. The amount of this liability is computed using historical claims payment experience. Estimates are adjusted based upon changes in experience and such adjustments are reflected in current operations. Although considerable variability is inherent in such estimates, there is at least a possibility that recorded estimates will change by a material amount in the near term.

Professional and hospital services revenue:

Revenues for professional and hospital services is recorded when services have been performed by physician employees of UPH, physicians contracted by UPH, or at UPHK. The revenue is recorded net of contractual allowances. Revenue under third-party payor agreements is subject to audit, retroactive adjustments, and significant regulatory actions. Provisions for third-party payor settlements and adjustments are estimated in the period the related services are provided and adjusted in future periods as additional information becomes available and as final settlements are determined. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term.



**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

1. Description of business and summary of significant accounting policies (continued):

Capitation and contract services revenue:

Capitation and contract services revenue includes revenue earned under contracts that require UPH to provide health care services to subscribers of the contracting agency for either set monthly fees or monthly capitation fees as agreed upon by UPH and the contracting agency. Amounts receivable under these contracts are recorded as capitation and contract receivables.

Continuation of the UPHK lease agreement with Pima County as well as Medicare and Arizona Health Care Cost Containment System (AHCCCS) programs is dependent upon governmental policies. These and other contracts are subject to renewal at various future dates. The loss of one or more of these contracts would have an adverse effect on UPH's future operations.

Nonoperating income (loss):

Nonoperating income (loss) includes income derived from nonpatient and nonrecurring activities.

Charity care:

UPH provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because UPH does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. Charity care provided by UPH totaled approximately \$1,528,000 and \$1,207,000 in 2008 and 2007.

Income taxes:

UPH has been recognized as a tax-exempt organization for federal income tax purposes under Section 501(c)(3) of the Internal Revenue Code. UPH has also been recognized as a tax-exempt organization for state income tax purposes. Accordingly, no provision or liability is made for income taxes in the consolidated financial statements. Management is not aware of any matters that would cause UPH to lose its tax-exempt status.

2. Accounts receivable, net:

	<u>2008</u>	<u>2007</u>
Under 150 days	\$ 65,425,943	\$ 57,198,430
Over 150 days	7,179,085	10,826,699
Unbilled	<u>7,079,416</u>	<u>12,778,553</u>
	79,684,444	80,803,682
Less contractual allowance	<u>39,203,118</u>	<u>34,991,197</u>
	40,481,326	45,812,485
Less allowance for doubtful accounts	<u>5,102,148</u>	<u>8,408,333</u>
	<u>\$ 35,379,178</u>	<u>\$ 37,404,152</u>

# UNIVERSITY PHYSICIANS HEALTHCARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

### 3. Property and equipment:

	2008	2007
Land	\$ 987,690	\$ 987,690
Buildings	21,945,353	20,302,331
Computer equipment	25,025,180	23,071,956
Office furniture and equipment	11,064,610	10,980,818
Medical equipment	30,580,893	25,561,516
Leasehold improvements	7,670,295	5,454,991
Construction in progress	3,494,147	2,576,958
	100,768,168	88,936,260
Less accumulated depreciation and amortization	51,252,681	42,563,442
	<u>\$ 49,515,487</u>	<u>\$ 46,372,818</u>

During 2007, UPH placed assets with a net book value of \$571,030 for sale. These assets were taken out of service and depreciation ceased. At June 30, 2008 and 2007, the fair value of the assets exceeds their net carrying value and, as such, no impairment loss was recognized during 2008 or 2007.

### 4. Assets limited as to use:

	2008	2007
US government and agency obligations	\$ 987,810	\$ 1,019,745
Cash and cash equivalents	151,933	7,765,910
	1,139,743	8,785,655
Current portion	23,651	7,674,100
	<u>\$ 1,116,092</u>	<u>\$ 1,111,555</u>

### 5. Investments:

The Organization invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market's perception of the issuers and changes in interest rate. In addition, the Organization invests in various investment securities that are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

5. Investments (continued):

In 2006, Caduceus began investing in the General Re-New England Asset Management Focused Value Equity Management Fund (the "Fund"). At June 30, 2008 and 2007, the Company's investment in the Fund totaled \$10,827,063 and \$13,766,348 and ownership interest in the Fund was approximately 31% and 40%. During 2008 and 2007, the equity in earnings (loss) of equity method investee totalled \$(2,939,284) and \$2,160,571. This gain (loss) represents the change in market value of the underlying securities in the Fund and is recorded as nonoperating income in the consolidated statements.

Investments held at June 30, 2008 and 2007 are as follows:

	<u>2008</u>	<u>2007</u>
US government and agency obligations	\$ 3,025,778	\$ 11,675,812
Corporate securities	4,850,866	5,485,434
Mutual funds, security backed and other structured securities	20,959,630	27,434,916
Investment in equity method investee	10,827,064	13,766,348
Mortgage backed securities	19,393,730	15,542,658
Investment in joint ventures	<u>(370,773)</u>	<u>(20,779)</u>
	<u>\$ 58,686,295</u>	<u>\$ 73,884,389</u>

UPH's investment income for the years ended June 30 consists of the following:

	<u>2008</u>	<u>2007</u>
Interest and dividends	\$ 3,424,676	\$ 2,562,036
Net realized losses	<u>(2,877)</u>	<u>(76,199)</u>
	<u>\$ 3,421,799</u>	<u>\$ 2,485,837</u>

Investment income is presented net of certain related investment fees. For the years ended June 30, 2008 and 2007, total investment fees included in investment income are \$120,014 and \$130,279.

6. Notes payable, bank:

UPH has a revolving line of credit agreement with JPMorgan Chase Bank, which provides for maximum borrowings of \$5,000,000 through December 2009. The borrowings under the agreement bear interest, at the election of UPH, at either the prime rate (5% and 8.25% at June 30, 2008 and 2007) minus 1.7% or LIBOR (2.77% and 5.36% at June 30, 2008 and 2007) plus 1%. At June 30, 2008 and 2007, the outstanding balance was \$5,000,000.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

6. Notes payable, bank (continued):

UPH has a revolving line of credit agreement with JPMorgan Chase Bank, which provides for maximum borrowings of \$10,000,000 through December 2009. Interest is payable monthly on advances at LIBOR (2.77% and 5.36% at June 30, 2008 and 2007) plus 1%. At June 30, 2008 and 2007, the outstanding balance was \$10,000,000.

UPH has a revolving line of credit agreement with Compass Bank, which provides for maximum borrowings of \$5,000,000 through May 2009. Interest is payable monthly on advances at LIBOR (2.47% and 5.32% at June 30, 2008 and 2007) plus 1%, with a floor of 4%. At June 30, 2008 and 2007, the outstanding balance was \$5,000,000.

UPH has a second revolving line of credit agreement with Compass Bank, which provides for maximum borrowings of \$5,000,000 through May 2009. Interest is payable monthly on advances at LIBOR (2.47% at June 30, 2008) plus 1.5%, with a floor of 4%. At June 30, 2008, the outstanding balance was \$5,000,000.

7. Capital lease obligations:

During 2004, the Industrial Development Authority of the City of South Tucson, Arizona (Authority) issued \$9,900,000 of tax-exempt Series 2004 Equipment Lease Bonds, pursuant to a bond purchase agreement between the Authority and Chase Equipment Leasing, Inc. (Chase), the bond trustee. The net proceeds of these bonds were utilized to finance the acquisition of medical equipment by UPHK through June 2006. The 2004 bonds are serial bonds totaling \$9,900,000 and are due in monthly installments through December 2011. Interest is payable monthly at an annual rate of 3.8849%.

The 2004 bonds are secured by the equipment rental payments made by UPHK to Chase pursuant to a capital lease with an imputed interest rate of 3.8849%. UPHK recorded assets with a cost of \$9,903,819 and accumulated amortization of \$5,727,927 and \$4,323,002 at June 30, 2008 and 2007 related to this lease. Amortization expense of \$1,404,925 and \$2,014,720 is included in depreciation and amortization expense at June 30, 2008 and 2007.

In addition, the Organization leases certain other medical equipment under capital leases. The Organization has recorded assets with a cost of \$1,622,209 and accumulated amortization of \$1,245 related to these leases.

# UNIVERSITY PHYSICIANS HEALTHCARE

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

YEARS ENDED JUNE 30, 2008 AND 2007

### 7. Capital lease obligations (continued):

Future minimum annual payments under capital leases and the net present value of the future minimum lease payments are as follows:

Year ending June 30,	
2009	\$ 1,968,002
2010	1,984,643
2011	1,984,643
2012	1,042,483
2013	<u>369,511</u>
	7,349,282
Less amounts representing interest	<u>642,210</u>
Present value of net minimum payments under capital leases	6,707,072
Less current portion	<u>1,695,446</u>
	<u>\$ 5,011,626</u>

### 8. Long-term debt:

During 2007, the Authority issued \$10,000,000 of tax-exempt Series 2006 Healthcare Facilities Revenue Bonds, pursuant to a bond purchase agreement between the Authority and Compass Bank, the bond trustee. The bond issuance totaling \$10,000,000 is to be used for the acquisition of medical equipment. At June 30, 2008 and 2007, there was \$23,651 and \$7,652,483 in remaining proceeds held by the trustee under this agreement, which have been classified as assets limited as to use in the consolidated statements of financial position.

The financing cost of tax exempt debt is presented net of the investment income earned on the proceeds related to the financing. For the years ended June 30, 2008 and 2007, \$4,102 and \$333,968 of interest income is netted against interest expense.

	<u>2008</u>	<u>2007</u>
Series 2006 Authority Tax Exempt Revenue Bonds, payable in monthly installments of \$140,580 including interest at 4.77% through September 2013, collateralized by property and equipment and secured primarily by a deed of trust, the assignment of rents and leases, a security agreement and a fixture filing made by UPH to Compass.	\$ 7,807,234	\$ 9,081,839

**UNIVERSITY PHYSICIANS HEALTHCARE**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

**YEARS ENDED JUNE 30, 2008 AND 2007**

**8. Long-term debt (continued):**

	<u>2008</u>	<u>2007</u>
Series 2005 A Authority Tax Exempt Revenue Bonds, payable in monthly installments of \$42,562 including interest (4.42% through December 2015 when the interest rate and payment is reset based on market rates) through December 2025, collateralized by property and equipment and secured primarily by a deed of trust, the assignment of rents and leases, a security agreement and a fixture filing made by UPH to Compass.	\$ 6,233,122	\$ 6,458,251
Series 2005 B Authority Tax Exempt Revenue Bonds, payable in monthly installments of \$45,369 including interest at 4.21% through December 2012, collateralized by property and equipment and secured primarily by a deed of trust, the assignment of rents and leases, a security agreement and a fixture filing made by UPH to Compass.	2,225,293	2,664,226
Series 2000 Health Facilities Tax Exempt Revenue Bonds, payable in annual installments averaging \$173,000 plus interest at a weekly variable rate as defined (averaging 2.92% and 3.8% in 2008 and 2007) through August 2030, collateralized by property and equipment and a letter of credit.	4,110,000	4,220,000
Series 1994 Health Facilities Tax Exempt Revenue Bonds, payable in annual installments averaging \$115,385 plus interest at a weekly variable rate as defined (averaging 2.98% and 3.7% in 2008 and 2007) through August 2018, collateralized by property and equipment, a letter of credit and certain investments.	1,300,000	1,400,000
Note payable to Pima County under lease agreement, payable in annual installments of \$249,048 including interest at 0% through December 2013, secured by property and equipment.	1,494,290	1,743,339

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

8. Long-term debt (continued):

	<u>2008</u>	<u>2007</u>
Note payable to Arizona Health Care Cost Containment System (AHCCCS), payable in annual installments of \$100,000 including interest at 0% beginning 90 days following receipt of certain payments related to UPH's graduate medical education program, as defined.	500,000	
	23,669,939	25,567,655
Less current maturities	<u>2,592,360</u>	<u>2,397,718</u>
	<u>\$ 21,077,579</u>	<u>\$ 23,169,937</u>

Future maturities of long-term debt are as follows:

Year ending	
<u>June 30,</u>	
2009	\$ 2,592,360
2010	2,694,275
2011	2,800,867
2012	2,911,261
2013	2,754,170
Thereafter	<u>9,917,006</u>
	<u>\$ 23,669,939</u>

The bond agreements and lines of credit are subject to certain financial and nonfinancial covenants. At June 30, 2008 and 2007, UPH was in violation of certain financial covenants, which the banks have subsequently waived.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

9. Commitments and contingencies:

Leases:

A summary of future minimum lease payments under noncancelable operating leases for buildings and medical equipment are as follows:

Year ending <u>June 30,</u>	
2009	\$ 1,002,568
2010	765,829
2011	711,110
2012	507,240
2013	475,390
Thereafter	<u>39,704</u>
	<u>\$ 3,501,841</u>

Rent expense under operating leases totaled \$1,354,372 and \$2,221,004 in 2008 and 2007.

Healthcare regulatory environment:

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursement for patient services and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that UPH is in compliance with fraud and abuse as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

In 2006, UPH identified through its internal compliance program overpayments from Medicare and AHCCCS related to services provided by several physicians. UPH made a voluntary disclosure to the OIG related to these services and in 2007 paid \$633,967 in settlement of this issue. The settlement agreement also requires UPH to establish and maintain certain prescribed compliance standards.

Revenues from the Medicare and AHCCCS programs accounted for approximately 48% and 46% in 2008 and 2007 of UPH's capitation and contract and professional and hospital services revenue.



**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

9. Commitments and contingencies (continued):

Healthcare regulatory environment (continued):

UPH has obtained a surety bond in the amount of approximately \$3 million to satisfy the performance bond requirements for the University Family Care and Health Care Group contracts.

During 2006 legislation was passed requiring the establishment of permanent Recovery Audit Contractors (RACs) to identify Medicare overpayments and underpayments to hospitals. UPH has not been notified by the RAC of any pending audit of its billing practices.

Legal proceedings and professional liability insurance:

UPH is from time to time involved in various legal proceedings and litigation normally incident to its business, primarily professional liability. UPH has a self-insurance program to insure the first \$3,000,000 in 2008 and 2007 for medical malpractice and general liability claims (limited in the aggregate to \$15,000,000 in 2008 and 2007). Insurance coverage has been purchased to cover excess amounts. Prior to July 1, 1993, all claims were managed by an agency of the State of Arizona on an occurrence basis with no deductibles. In the opinion of management, the outcome of such proceedings and litigation will not materially affect UPH's financial position, except for the matters described below.

There are known claims and incidents that may result in the assertion of additional claims, as well as claims from unknown incidents that may be asserted arising from health care services provided to patients by its members and employees. UPH has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. Accrued malpractice losses, which have been discounted at 6% in 2008 and 2007, provide an adequate reserve for medical malpractice losses in management's opinion, based upon consultation with their independent actuaries.

Lease with Pima County:

In June 2004, UPH entered into an agreement with Pima County (County) to lease the Kino hospital facility, now UPHK. Rent is payable in annual installments of \$10 or \$250 in the aggregate over the initial lease term. UPH is responsible for the hospital operations and its financial results. The initial term of the lease is 25 years with an extension option for another 25 years. UPH may terminate the lease on or after June 15, 2009, with 18 months notice to the County provided actual and projected losses incurred in a five-year period are in excess of \$10 million after considering all service fees paid by the County. As of June 30, 2008 and 2007, UPH has incurred cumulative losses totaling approximately \$32,900,000 and \$24,300,000.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

9. Commitments and contingencies (continued):

Lease with Pima County (continued):

The County is required to pay UPHK service fees as defined in the lease to assist in re-establishing a stable physician practice and to support the continued operation of the hospital. These payments, which will be made to the extent that UPHK's allowable costs, as defined, exceed its revenues, will be paid monthly during the initial lease term in an aggregate amount not to exceed \$127,000,000. As of June 30, 2008, UPH has received \$84,299,882 in cumulative service fees from the County. These amounts are recorded as capitation and contract services revenue and totaled \$25,000,000 in 2008 and \$14,791,667 in 2007.

During 2007, UPH renegotiated the lease agreement with the County to accelerate the payment of service fees. The renegotiated lease provides for payments of \$25 million in each of the next two fiscal years. In exchange, UPH may not terminate the lease until at least 2011, under the same conditions prescribed in the original agreement. It is anticipated that by the end of fiscal year 2009 the lease will be renegotiated again to provide long-term funding for the hospital project.

Continuation of University Family Care Contract:

UPH contracts with AHCCCS to provide capitated medical services to AHCCCS members through its University Family Care (UFC) program. Effective October 1, 2003 the program was awarded a limited contract renewal allowing it to continue, but only permitting the enrollment of new members in limited circumstances. During 2008, UPH was awarded a full contract renewal effective October 1, 2008 through September 30, 2013. Because new members have not been enrolled since 2003, membership has decreased from 8,547 at June 30, 2007 to 7,253 at June 30, 2008 as existing members become ineligible for AHCCCS coverage. Contract revenue for services to UFC members dropped by approximately \$2,851,000 in 2008 when compared to 2007.

Continuation of AHCCCS contracts is subject to renewal at a future date and dependent upon governmental policies.

10. Reinsurance:

UPH receives reinsurance coverage from the State of Arizona to reduce the risk of catastrophic loss on services provided under the University Family Care program. This reinsurance expense is reflected as reduced capitation rates paid to UPH. Under the state program, risk of loss for inpatient claims is generally limited to an annual deductible of \$15,000 to \$20,000 per member, per policy year. Eligible claims in excess of the deductible are generally paid at 75% to 100% with no annual maximum benefit. The risk of loss for members with a diagnosis that is specifically covered by the state program or members who receive a covered transplant is not limited by a deductible. These claims are generally paid at 85% to 100% with no annual maximum benefit.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

10. Reinsurance (continued):

The State of Arizona also provides reinsurance coverage for Health Care Group claims. There are two separate mechanisms to reimburse the plan for these claims. Claims in excess of \$115,000 for contract year 2007-2008 are reimbursed by Presidio, a third party insurer, at 50% to 90% up to a maximum of \$1 million. As the annual deductible for 2007-2008 for Presidio is \$115,000, the self-funded reinsurance will cover claims that are more than \$50,000 and less than \$115,001. The maximum reimbursement for the self funded claims for 2007-2008 is \$48,750. Both funding mechanisms reduce the amount of capitation UPH receives.

Amounts received and estimated to be recoverable under reinsurance contracts totaling approximately \$9.9 million and \$8.3 million for 2008 and 2007 are treated as a reduction of health care claims expense, which is included in operations expense in the accompanying financial statements. Recorded recoveries represent management's best estimate and are calculated based on a percentage of health care claims costs incurred. As a result, there is at least a possibility that recorded estimates will change by a material amount in the near term. Reinsurance receivables totaling approximately \$3,621,000 and \$6,428,000 at June 30, 2008 and 2007 are reflected in capitation and contract receivables.

11. Benefit plans:

Full-time physician employees of UPH who are also faculty employees of the UA may participate in the state retirement program. The program is funded through payroll deductions from covered members and amounts contributed by UPH that equal the amount contributed by each member. Contributions to the retirement program by UPH are not separately identified, but are included in an aggregate amount paid to the UA for employee-related expenses, which also includes payroll taxes and various insurance costs. It is estimated that the portion representing retirement contributions is 7.5% and 7.25% of gross wages for 2008 and 2007.

UPH has a 401(k) plan for all eligible employees. UPH makes contributions of 7% of eligible employee annual gross wages and makes a contribution equal to 50% of the employee's deferral up to 2% of the employee's salary. UPH's contributions to the plans totaled \$4,374,896 and \$3,749,320 for 2008 and 2007.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

**12. Related party transactions:**

**College of Medicine:**

UPH has an agreement with the Arizona Board of Regents whereby it is required to pay to the Dean of the College of Medicine 4% of all fees collected for professional health care services delivered by its members and employees. Assessments totaled \$5,857,139 and \$5,687,229 in 2008 and 2007. The funds may be used at the discretion of the Dean for the benefit of the College of Medicine. UPH contributed an additional \$2,229,910 and \$2,395,973 to the College of Medicine for research and teaching in 2008 and 2007.

UPH contracts for payroll, personnel and medical purchasing services with the UA. Fees assessed for these services totaled \$2,945,539 and \$2,752,847 in 2008 and 2007.

**University Medical Imaging, L.L.C:**

In 2007, UPH became a member in a joint venture with University Medical Center Corporation (UMCC), University Medical Imaging, L.L.C. (UMI). UMI was organized to own, lease, and operate one or more diagnostic imaging facilities. UPH and UMCC are both equal partners in this venture which began operations in 2007. UPH and UMCC have agreed to guarantee UMI's facility lease for a minimum of five years. Total future lease payments subject to the lease guarantee are approximately \$926,000. UPH's recorded investment in the joint venture is \$(483,383) and \$(20,779) at June 30, 2008 and 2007.

**Special Needs Health Plan Joint Venture:**

In 2007, UPH entered into a joint venture with Maricopa Integrated Health Systems (MIHS) to form a health plan to operate a Medicare Special Needs Plan. UPH and MIHS are equal partners in the joint venture. UPH's recorded investment in the joint venture is \$112,610 at June 30, 2008. UPH had no recorded investment in the joint venture at June 30, 2007.

**13. Functional expenses:**

UPH provides healthcare services to residents within its geographic locations. UPH incurs general and administrative expenses for various activities, including management and administrative activities, which support the provision of health care services. A summary of expenses related to providing these services for the years ended June 30 are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$245,177,163	\$242,905,089
General and administrative	<u>89,378,896</u>	<u>78,142,278</u>
	<u>\$334,556,059</u>	<u>\$321,047,367</u>

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2008 AND 2007**

14. Supplemental cash flow information:

Supplemental disclosures of cash flow information:

UPH paid cash of approximately \$999,065 and \$680,000 for interest in 2008 and 2007.

During 2008, the Organization acquired \$1,622,209 of medical equipment under capital leases.

15. Concentration of credit risk:

UPH grants credit without collateral to its patients, most of whom are under third-party payor agreements which include 1) Medicare, 2) AHCCCS contractors, 3) private payors including commercial carriers and health maintenance organizations, and 4) others including self-pay.

The following table summarizes the percent of gross accounts receivable from all payors at June 30:

	<u>2008</u>	<u>2007</u>
Commercial	38 %	41 %
AHCCCS	30	30
Medicare	19	16
Other (including self-pay)	<u>13</u>	<u>13</u>
	<u>100 %</u>	<u>100 %</u>

Commercial and other amounts due consist of receivables from various payors, including individuals involved in diversified activities subject to differing economic conditions. Management does not believe there are any significant credit risks associated with accounts receivable. Furthermore, management continually monitors and adjusts its allowances (contractual and bad debt) associated with these receivables.

16. Reclassification:

The presentation of net unrealized gains related to investments held by Caduceus that were included in investment income in the 2007 statement of activities have been reclassified to net unrealized gains to conform to the 2008 financial statement presentation. In addition, earnings attributable to equity method investments included in investment income in the 2007 financial statements have been reclassified to nonoperating income in the statement of activities to conform to the 2008 financial statement presentation. These reclassifications had no effect on net assets at June 30, 2007 or on the decrease in net assets for the year then ended.

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**CONSOLIDATING STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2008**

ASSETS	Clinical Departments	Capital and Other Fund	Health Plans	UPH Hospital at Kino	Eliminations	UPH Combined	Caduceus	Eliminations	Consolidated Total
<b>Current assets:</b>									
Cash and cash equivalents	\$ 22,709,606	\$ (1,139,633)	\$ (450,627)	\$ (2,972,515)		\$ 18,146,831	\$ 2,293,436		\$ 20,440,267
Assets limited as to use				23,651		23,651			23,651
Accounts receivable, net	21,963,384	367		14,047,765	\$ (632,338)	35,379,178			35,379,178
Estimated third-party payor settlements				1,059,251		1,059,251			1,059,251
Capitation, contract and other receivables	6,221,174	648,234	8,040,348	5,194,080	(173,171)	19,930,665	206,505		20,137,170
Other current assets	211,473	1,182,378	825,155	2,976,770		5,195,776			5,195,776
<b>Total current assets</b>	<b>51,105,637</b>	<b>691,346</b>	<b>8,414,876</b>	<b>20,329,002</b>	<b>(805,509)</b>	<b>79,735,352</b>	<b>2,499,941</b>		<b>82,235,293</b>
Property and equipment, net	1,595,946	24,249,306	1,573,287	22,096,948		49,515,487			49,515,487
Assets held for sale		571,030				571,030			571,030
Investments	14,952,908	788,918	112,610	(2,235,936)		13,618,500	45,067,795		58,686,295
Assets limited as to use		1,116,092				1,116,092			1,116,092
Investment in subsidiary		32,181,699				32,181,699		\$ (32,181,699)	
Due from (to) other funds	(2,648,018)	9,128,765	14,648,520	(21,978,104)		(848,837)	848,837		
	<u>\$ 65,006,473</u>	<u>\$ 68,727,156</u>	<u>\$ 24,749,293</u>	<u>\$ 18,211,910</u>	<u>\$ (805,509)</u>	<u>\$ 175,889,323</u>	<u>\$ 48,416,573</u>	<u>\$ (32,181,699)</u>	<u>\$ 192,124,197</u>
<b>LIABILITIES AND NET ASSETS</b>									
<b>Current liabilities:</b>									
Notes payable, banks				\$ 25,000,000		\$ 25,000,000			\$ 25,000,000
Current maturities of capital lease obligation				1,695,446		1,695,446			1,695,446
Current maturities of long-term debt		\$ 418,865		2,173,495		2,592,360			2,592,360
Accounts payable and accrued expenses	\$ 3,747,012	10,347,281	\$ 1,169,025	4,027,887		19,291,205	\$ 31,874		19,323,079
Accrued employee compensation	16,392,533	3,742,504	575,489	2,665,975		23,376,501			23,376,501
Accrued professional liability claims							16,203,000		16,203,000
Accrued medical claims			7,382,884		\$ (805,509)	6,577,375			6,577,375
Amounts due to the College of Medicine	714,501	(48,079)		(27,639)		638,783			638,783
<b>Total current liabilities</b>	<b>20,854,046</b>	<b>14,460,571</b>	<b>9,127,398</b>	<b>35,535,164</b>	<b>(805,509)</b>	<b>79,171,670</b>	<b>16,234,874</b>		<b>95,406,544</b>
Capital lease obligation, less current maturities				5,011,626		5,011,626			5,011,626
Long-term debt, less current maturities		10,501,676		10,575,903		21,077,579			21,077,579
	20,854,046	24,962,247	9,127,398	51,122,693	(805,509)	105,260,875	16,234,874		121,495,749
Unrestricted net assets (deficit)	44,152,427	43,764,909	15,621,895	(32,910,783)		70,628,448	32,181,699	\$ (32,181,699)	70,628,448
	<u>\$ 65,006,473</u>	<u>\$ 68,727,156</u>	<u>\$ 24,749,293</u>	<u>\$ 18,211,910</u>	<u>\$ (805,509)</u>	<u>\$ 175,889,323</u>	<u>\$ 48,416,573</u>	<u>\$ (32,181,699)</u>	<u>\$ 192,124,197</u>

**UNIVERSITY PHYSICIANS HEALTHCARE**  
**CONSOLIDATING STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2008**

	Clinical Departments	Capital and Other Fund	Health Plans	UPH Hospital at Kino	Eliminations	UPH Combined	Caduceus	Eliminations	Consolidated Total
<b>Revenues and gains:</b>									
Professional and hospital services	\$ 125,718,149	\$ 16,471		\$ 77,479,131	\$ (6,604,440)	\$ 196,609,311			\$ 196,609,311
Capitation and contract services	37,358,936	2,538,123	\$ 59,028,322	39,867,486	(11,048,889)	127,743,978	\$ 3,902,000	\$ (3,902,000)	127,743,978
Investment income	1,773,682	695,531		(9,727)	(761,387)	1,698,099	1,723,700		3,421,799
<b>Total revenues and gains</b>	<b>164,850,767</b>	<b>3,250,125</b>	<b>59,028,322</b>	<b>117,336,890</b>	<b>(18,414,716)</b>	<b>326,051,388</b>	<b>5,625,700</b>	<b>(3,902,000)</b>	<b>327,775,088</b>
<b>Operating expenses:</b>									
Personnel services	85,941,062	17,449,349	10,458,548	67,336,782	(11,022,347)	170,163,394			170,163,394
Operations	29,538,042	(19,656,637)	45,140,766	22,437,328	(6,068,384)	71,391,115	235,308		71,626,423
Provision for doubtful accounts	14,637,975	10,964		17,175,684		31,824,623			31,824,623
Members' benefits	12,044,222	530,275	33,155	162,080		12,769,732			12,769,732
Assessments	8,651,677	7,844	3,751	145,250		8,808,522			8,808,522
Liability insurance	5,783,393	40,293	13,320	1,301,124		7,138,130	6,263,931	(3,902,000)	9,500,061
Medical supplies	7,439,131	73,510	10,276	10,829,196		18,352,113			18,352,113
Depreciation and amortization	1,166,303	2,797,353	774,437	4,784,688	(353,694)	9,169,087			9,169,087
Interest	22,666	570,496	53,991	2,456,338	(761,387)	2,342,104			2,342,104
<b>Total operating expenses</b>	<b>165,224,471</b>	<b>1,823,447</b>	<b>56,488,244</b>	<b>126,628,470</b>	<b>(18,205,812)</b>	<b>331,958,820</b>	<b>6,499,239</b>	<b>(3,902,000)</b>	<b>334,556,059</b>
<b>Income (loss) from operations</b>	<b>(373,704)</b>	<b>1,426,678</b>	<b>2,540,078</b>	<b>(9,291,580)</b>	<b>(208,904)</b>	<b>(5,907,432)</b>	<b>(873,539)</b>		<b>(6,780,971)</b>
<b>Nonoperating income (loss)</b>	<b>(6,327)</b>	<b>(5,524,613)</b>	<b>(700,952)</b>	<b>650,878</b>	<b>208,904</b>	<b>(5,372,110)</b>	<b>(2,939,284)</b>	<b>5,170,050</b>	<b>(3,141,344)</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>(380,031)</b>	<b>(4,097,935)</b>	<b>1,839,126</b>	<b>(8,640,702)</b>		<b>(11,279,542)</b>	<b>(3,812,823)</b>	<b>5,170,050</b>	<b>(9,922,315)</b>
<b>Net unrealized losses on investments</b>		<b>(2,050,596)</b>				<b>(2,050,596)</b>	<b>(1,357,227)</b>		<b>(3,407,823)</b>
<b>Increase (decrease) in net unrestricted assets (deficit)</b>	<b>(380,031)</b>	<b>(6,148,531)</b>	<b>1,839,126</b>	<b>(8,640,702)</b>		<b>(13,330,138)</b>	<b>(5,170,050)</b>	<b>5,170,050</b>	<b>(13,330,138)</b>
<b>Unrestricted net assets (deficit), beginning</b>	<b>43,102,138</b>	<b>51,343,760</b>	<b>13,782,769</b>	<b>(24,270,081)</b>		<b>83,958,586</b>	<b>37,351,749</b>	<b>(37,351,749)</b>	<b>83,958,586</b>
<b>Interfund transfer</b>	<b>1,430,320</b>	<b>(1,430,320)</b>							
<b>Unrestricted net assets (deficit), ending</b>	<b>\$ 44,152,427</b>	<b>\$ 43,764,909</b>	<b>\$ 15,621,895</b>	<b>\$ (32,910,783)</b>	<b>\$</b>	<b>\$ 70,628,448</b>	<b>\$ 32,181,699</b>	<b>\$ (32,181,699)</b>	<b>\$ 70,628,448</b>

**Supplemental Schedules**

**UNIVERSITY PHYSICIANS HEALTHCARE  
UNIVERSITY FAMILY CARE**

**(an operating division)**



UNIVERSITY PHYSICIANS HEALTHCARE  
UNIVERSITY FAMILY CARE (an operating division)

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2008

ASSETS

Current assets:

Cash and cash equivalents	
Reinsurance receivable	\$ 2,989,269
Capitation/Delivery/HIV-Aids receivable	114,839
Current due from affiliates and intercompany receivables	8,701,530
Other current assets	<u>223,423</u>

Total current assets	<u>12,029,061</u>
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Long Term assets:

Other non-current assets	<u>624,340</u>
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Total current assets	<u>624,340</u>
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Property and equipment:

Furniture and equipment	81,081
Accumulated depreciation and amortization	<u>(81,081)</u>

Property and equipment, net	<u>0</u>
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\$ 12,653,401
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LIABILITIES AND NET ASSETS

Current liabilities:

Accrued administrative costs	\$ 229,260
Capitation payable	
Medical claims payable	3,748,390
Other current liabilities	<u>46,148</u>

Total current liabilities	4,023,798
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Unrestricted net assets	<u>8,629,603</u>
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\$ 12,653,401
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**UNIVERSITY PHYSICIANS HEALTHCARE  
UNIVERSITY FAMILY CARE (an operating division)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**YEAR ENDED JUNE 30, 2008**

**Revenues:**

Capitation premiums	\$ 22,565,633
PPC capitation	333,864
Hospital supplement	10,780
Delivery supplement	865,772
HIV-AIDS supplement	102,030
PPC settlement	(125,904)
TWG settlement	(124,693)
Other	0
Total revenue	<u>23,627,482</u>

**Health care expenses:**

**Hospitalization expenses:**

Hospital inpatient	7,171,203
PPC - hospital inpatient	114,988
Total hospitalization expenses	<u>7,286,191</u>

**Medical compensation:**

Primary care physician services	1,375,605
Referral physician services	3,252,289
PPC - physician services	36,487
Total medical compensation expenses	<u>4,664,381</u>

**Other medical expenses:**

Emergency services	1,620,481
Pharmacy	9,524,594
Lab, X-ray and medical imaging	1,412,888
Outpatient facility	2,039,053
Durable medical equipment	256,412
Dental	1,056,244
Transportation	773,271
NF, home health care	863,064
Physical therapy	199,894
Miscellaneous medical expenses	129,504
PPC - other medical expenses	54,630
Total other medical expenses	<u>17,930,035</u>

Total health care expenses	<u>29,880,607</u>
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**UNIVERSITY PHYSICIANS HEALTHCARE  
UNIVERSITY FAMILY CARE (an operating division)**

**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS (CONTINUED)**

**YEAR ENDED JUNE 30, 2008**

Less:	
Reinsurance	\$ 9,795,112
PPC - reinsurance	(3,750)
Third party liability	34,139
Total net health care expenses	<u>20,055,106</u>
Administrative expenses:	
Compensation	1,946,149
Data processing	211,395
Management fees	165,477
Interest	4,448
Occupancy	47,998
Depreciation	92,866
Marketing	19,696
Other - administrative expenses	281,573
Total administrative expenses	<u>2,769,602</u>
Total expenses	22,824,708
Premium taxes	<u>673,166</u>
Increase in unrestricted net assets	129,608
Unrestricted net assets, beginning	5,831,910
Increase (decrease) in contributed capital	<u>2,668,085</u>
Unrestricted net assets, ending	<u><u>\$ 8,629,603</u></u>